This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 04 PRETORIA 001612

SIPDIS

STATE PLEASE PASS USAID
STATE PLEASE PASS USGS

E.O. 12958: N/A
TAGS: EPET ENRG EINV EIND ETRD ECON SF
SUBJECT: South Africa: Minerals and Energy Newsletter "THE ASSAY" - Issue 3, March 2005

REF: A) PRETORIA 3049, B) PRETORIA 2998

This cable is not for Internet distribution.

¶1. (U) Introduction: In January 2004, the Economic Section of Embassy/Pretoria produced the first issue of a new monthly newsletter called "The Assay". The purpose of this monthly newsletter is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

Key

¶2. (U) Key to some of the terminology and abbreviations used is given to facilitate understanding.

BEE (Black Economic Empowerment) - the scheme whereby the South African Government promotes black participation in business.

- t = tons,
- t/d = tons per day,
- c/l = cents per liter,
- t/m = tons per month,
- t/y = tons per year,
- oz = troy ounces (31.1 grams),
- cmg = centimeter grams,
- mcf = million cubic feet,
- tcf = trillion cubic feet,
- R = SA currency (rand),
- MW = megawatts,
- kt = thousand tons,
- bbl/d = barrels per day,
- MW = megawatts,
- PGM = platinum group metals.

HOT ISSUES

Mineworker Layoffs - Unions Call Strikes

¶3. (U) "As many as 20,000 people could lose their jobs in the next two months -- this is an employment state of emergency," said Solidarity trade union General Secretary, Flip Buys. The union is negotiating with a number of companies to prevent laying off some 18,300 workers in the mining, chemicals, and metal industries, which the companies blame on a strong rand. Solidarity has appointed a commission of inquiry to look into ways of lessening the impact on thousands of workers. Most of the layoffs will hit the mining industry. Estimated layoffs by company are as follows: Harmony 4,900; DRDGold 6,500; De Beers 1,270; and Kumba 400. Since employment in the mining industry peaked in the 1980's at about 750,000 -- 530,000 employed by the gold mines -- worker numbers have fallen precipitously. Today, the mining industry employs about 450,000 workers, 190,000 by the gold mines. Since the 1980s, gold production has fallen from over 800 tons per year to the current 370 tons.

¶4. (U) The National Union of Mineworkers (NUM) called on 100,000 of its members to strike against Gold Fields, DRDGold, and Harmony. The loss of jobs is the primary issue, but other issues include accusations of racism, poor working conditions, pay differentials, and increased housing allowances for workers who opt to stay in private lodgings instead of single-sex hostels at the mine site. Last week, a district court ruled that the strike against Gold Fields was illegal and ordered workers to return to work. However, some 21,000 Harmony mineworkers in the Free State remained on strike, only returning to work on April 6 after reaching a

preliminary compromise with Harmony. Industry insiders believe that the strike actions represent the "first shots across the bow" for forthcoming industry wage negotiations that begin in June. Additionally, the NUM have accused DRDGold of poor management of and unsafe working conditions in their mines, and have asked the Minister of Minerals and Energy to revoke the company's mining licenses.

MINERALS

South African Mineral Production - 2004

¶5. (U) Mining production rose by 12.4% year-on-year (y/y) in January after an 8.2% y/y increase in December. This brought the increase since October to 15.4%. In the three months to end January, production rose by 7.1% (annualized 31.6%) on the prior three-month period. This was due to an 8.3% rise in non-gold production due to increases in coal and platinum group metal (PGM) production - in December, the production value of both PGMs ($500 million) and coal ($440 million), exceeded that of gold ($400 million). Gold mining production rose by 1.2% over the same period. In 2004, mineral sales rose by 6.8% to R125.5 billion, or by 25.2% in U.S. dollar terms to $19.5 billion, and reflect very strong demand in the international commodity markets. The table below shows the impact of fluctuating currency values, with 2002 being a record for rand earnings and 2004 for dollar earnings. Record rand sales occurred in 2002 due to an extremely weak rand.

Value of Mineral Sales

Year	Rand (billion)	US$ (billion)	Exchange Rate Rand:US$1
2000	98.4	14.2	6.94
2001	118.9	13.8	8.60
2002	137.6	13.1	10.52
2003	117.9	15.6	7.56
2004	125.5	19.5	6.45

IRON ORE

Rail Expansion for Iron Ore Export

¶6. (U) On March 7, Kumba Resources and Transnet (the state-owned transportation and logistics conglomerate) announced a $1.3 billion investment plan to boost South Africa's iron ore exports. Kumba Resources is to invest $500 million in the Sishen (iron ore mine) Expansion Project to increase production from 28 mt/y to 38 mt/y by 2009. Construction is scheduled to begin mid-2005 and first production in 2007. In the meantime, Transnet has agreed to invest $800 million to expand capacity on the Sishen-Saldanha rail link and to upgrade port facilities at Saldanha Bay. Kumba and Transnet also recently agreed on a new contract for the transportation and handling of iron ore. The contract incorporates a rand-based tariff in place of a pricing mechanism linked to the $U.S. price of iron ore.

¶7. (U) Assmang [the joint-venture between African Rainbow Minerals (ARM) and Ore and Metal Company (ASSORE)] and Spoornet (the rail operating arm of Transnet) announced that Assmang's iron ore export allocation would also increase substantially by 2009/10. Assmang currently exports about 6 mt/y via the Orex rail line to Saldanha Bay. The company is conducting a feasibility study on establishing a new $170 million mine (called BKM) just south of Kumba's Sishen mine that will substantially replace production from Assmang's aging Beeshoek mine near Postmasburg. BKM is scheduled to export about 10 mt/y by 2010, rising to 15 mt/y by 2015. Transnet plans to increase the capacity of the Orex line from the current 29mt/y to about 41mt/y by 2010. It is also conducting a feasibility study on a further expansion to meet export needs.

STEEL

ISCOR R.I.P.

¶8. (U) Ispat Iscor officially changed its name to Mittal Steel South Africa in March. Davinder Chugh, Mittal's CE, said the group's two name changes over the past seven months -- first from Iscor to Ispat Iscor and then to Mittal Steel SA -- had cost the group about $70,000, a negligible amount compared to the benefits of associating the enterprise with the second largest steel company in the world. Mittal sold 70 million tons of steel last year. Recently, Mittal

obtained approval from U.S. regulators to acquire International Steel Group (ISG). If shareholders approve the deal on April 12, Mittal Steel will become the world's leader in steel production and shipments, outstripping European giant Arcelor. The group will also boast the largest market capitalization of any steel company in the world, at $18.5 billion.

Local Steel Prices

¶9. (U) On February 8, the South African Government revoked antidumping duties on steel imports from Russia and Ukraine -- currently 81.7% and 94.8%, respectively. The move was in line with government policy to promote greater competition for local production and reduce domestic steel prices. The International Trade Administration Commission (ITAC) dismissed Mittal Steel's warning that "uncompetitive steel trading" would result if the government revoked the duties. While ITAC admitted in preliminary findings that the expiry of the antidumping duties would likely lead to a resumption of dumping from Russia and Ukraine, it ultimately concluded that such dumping would not materially injure domestic steel makers. The measure is the latest SAG effort to pressure Mittal into lowering domestic steel prices to give South African manufacturers a competitive edge. The government is also investigating removing its general 5% tariff on steel imports.

OIL AND GAS

Deep Water Exploration

¶10. (U) To date, oil and gas exploration on land and in coastal waters has only yielded a few pockets of natural gas and oil, insufficient to support a significant oil and gas industry in South Africa. Chief Executive of South Africa's Petroleum Agency of South Africa (PASA), Jack Holliday, reports that exploration is now moving to deeper waters (circa 2000 meters), where seismic data points to more favorable geological structures. All offshore exploration to date has been at water depths ranging from 100 to 800 meters. The proposed two deep-water wells are critical to understanding what might be housed in the exploration area, which lies about 100 miles off the west coast of South Africa.

¶11. (U) Two ventures have completed the first stage of data collection and are preparing to each drill a hole at depths of 1600 meters. One is a partnership between Forest Oil (U.S.), and state-owned PetroSA (South African). They plan to drill one hole this year, but it depends on the availability of equipment. The other is a partnership between BHP-Billiton (AUS) and Occidental. They hope to make a decision soon to take advantage of a drill rig available in September. PASA told us that the partnership between Pioneer Oil (U.S.) and PetroSA (South African) also wanted to explore for natural gas off the south coast. PetroSA urgently needs a new source of natural gas as feedstock for its gas-to-liquids plant at Mossel Bay. Current reserves will be depleted within five years.

PETROCHEMICALS

SASOL: More than Pipes Under Pressure

¶12. (U) In the aftermath of a series of fatal accidents at different petrochemical plants, SASOL is drawing increasing political criticism on the home front. Since July, SASOL has incurred seven accidents at different chemical plants in which 16 workers died and over two hundred were injured. The spate of accidents calls into question the company's maintenance and safety procedures, including its growing use of outside contractors. Unions have accused SASOL management of failing to take appropriate safety precautions, of failing to maintain aging plant and equipment, of cutting corners by outsourcing maintenance that should be performed by permanent and well-trained employees, and of not adhering to the government's BEE program. SASOL has been slow to respond to these attacks, but has contracted industry giant DuPont to audit its corporate wide safety management system, maintenance procedures, and training programs.

¶13. (U) The public criticism surrounding safety issues is additional to ANC-led government criticism of SASOL for lacking patriotism and commitment to BEE. Last year, President Mbeki publicly accused SASOL of disloyalty to the country because, in its application for a secondary listing on the NYSE, the company included possible costs or loss of operating licenses associated with the government's

implementation of BEE. At the beginning of this year, Director General of Minerals and Energy Sandile Nogxina publicly criticized the company for not meeting BEE targets and for not appointing a black to SASOL's Board (which it subsequently has done) or as a replacement for retiring CE Pieter Cox. In March, the CEO of the Public Investors Commission, Brian Molefe, publicly criticized SASOL for not having transformed its Board and senior management. Holding about 14%, the Public Investment Commission is SASOL's largest single shareholder. Moreover, the Competition Tribunal recently entered the fray with a judgment against SASOL for unlawful price discrimination. The aftermath of all this negative publicity has left SASOL management reeling in a public relations nightmare that is causing many South Africans to question SASOL's corporate ethics, safety management procedures, and reputation for corporate and social responsibility.

¶14. (U) Chief Executive Pieter Cox has argued that SASOL does back the government's economic and BEE policies, and points to a number of empowerment deals in the making by its mining, fertilizer, explosives, chemical, synfuels, and natural gas businesses. SASOL, with a capitalization value of $16.5 billion, is the fourth largest company, accounting for 5% of the capitalization of the JSE Securities Exchange.

NUCLEAR

South Africa-China Cooperation

¶15. (U) On March 6, pebble-bed nuclear technology developer PBMR Ltd and its Beijing-based counterpart, Chinergy, signed a memorandum of understanding allowing for the sharing of technical information on the development and construction of reactor demonstration projects. Jaco Kriek, CEO of PBMR Ltd, said that the parallel development of the two plants would improve mutual understanding of pebble bed nuclear technology. Frank Wu, CEO of Chinergy, noted that although both technologies used the same pebble fuel concept as the source of heat, Chinergy would utilize an indirect-cycle steam turbine to convert heat into power while PBMR would utilize a direct-cycle helium gas turbine system. Both South Africa and China acquired pebble bed technology from Germany. PBMR is a component of South Africa's Integrated Energy Plan, and has recently received high-level political approval and increased budget support.

IN BRIEF

Mintek CEO to Push Mineral Beneficiation

¶17. (U) Dr. Paul Jourdan, the current CEO of Mintek (the state-owned mineral processing research organization), will leave Mintek to become Special Advisor on Beneficiation to the Minister of Minerals and Energy when his contract expires in August. Jourdan will be responsible for the design and implementation of the government's ambitious policy of adding value and jobs to the mining industry through further processing/manufacturing of minerals before export.

FRAZER